

**MERCY FAMILY CENTER
FINANCIAL STATEMENTS AND
AUDITORS' REPORT**

June 30, 2013 and 2012

MERCY FAMILY CENTER

TABLE OF CONTENTS

June 30, 2013 and 2012

	PAGE
INDEPENDENT AUDITORS' REPORT.....	1-2
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS.....	6-14
SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS	16
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	17-18
SCHEDULE OF FINDINGS.....	19
SCHEDULE OF PRIOR YEAR FINDINGS	20

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mercy Family Center

Report on the Financial Statements

We have audited the accompanying financial statements of Mercy Family Center (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

As discussed more fully in Note 1, the financial statements presented are only for Mercy Family Center and are not intended to present fairly the financial position and changes in net assets of Mercy Health.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mercy Family Center as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013, on our consideration of Mercy Family Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mercy Family Center's internal control over financial reporting and compliance.

Kushner LaGraize, L.L.C.

Metairie, Louisiana
November 22, 2013

MERCY FAMILY CENTER
STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 210,734	\$ 310,562
Certificates of deposit	125,000	125,000
Receivables		
Patients, net	208,361	153,101
Students, net	5,568	8,974
Grants	<u>28,869</u>	<u>22,077</u>
Total receivables	242,798	184,152
Prepaid expenses	<u>23,215</u>	<u>24,561</u>
Total current assets	601,747	644,275
Property and equipment – at cost, net of depreciation and amortization	19,230	40,711
Deposits	<u>13,823</u>	<u>13,823</u>
TOTAL ASSETS	<u>\$ 634,800</u>	<u>\$ 698,809</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 13,472	\$ 242,335
Accrued expenses	165,026	144,121
Unearned revenue	126,426	427,375
Patient refunds payable	<u>103,595</u>	<u>27,478</u>
Total current liabilities	408,519	841,309
Due to Mercy Health	7,248,107	4,989,482
Long-term lease payable	<u>4,638</u>	<u>8,301</u>
TOTAL LIABILITIES	7,661,264	5,839,092
COMMITMENTS AND CONTINGENCIES		
Net assets		
Unrestricted	<u>(7,026,464)</u>	<u>(5,140,283)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 634,800</u>	<u>\$ 698,809</u>

MERCY FAMILY CENTER
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUES		
Patient service revenues	\$ 988,859	\$ 1,207,816
Provision for bad debts	(226,386)	(153,738)
Bad debt recoveries	<u>1,606</u>	<u>1,436</u>
Net patient service revenues	764,079	1,055,514
Net student service revenues	65,110	92,559
Contributions	850	9,114
Grants	543,215	778,275
Other income	<u>1,972</u>	<u>23,619</u>
TOTAL REVENUES	1,375,226	1,959,081
EXPENSES		
Salaries	2,260,348	2,370,279
Fringe benefits	339,952	366,821
Travel	42,273	55,488
Maintenance contracts	21,834	13,711
Supplies	85,543	78,553
Telephone	56,560	68,284
Utilities	12,665	12,179
Equipment expense	10,681	9,200
Lease and rentals	272,072	264,104
Insurance	10,752	9,538
Marketing	1,711	7,305
Dues and subscriptions	6,624	5,497
Legal and auditing	24,129	25,524
Consulting fees	5,395	11,403
Seminars and training	25,532	30,823
Depreciation and amortization	21,481	25,493
Other	<u>63,855</u>	<u>53,348</u>
TOTAL EXPENSES	<u>3,261,407</u>	<u>3,407,550</u>
Decrease in net assets	(1,886,181)	(1,448,469)
Net assets, beginning of year	<u>(5,140,283)</u>	<u>(3,691,814)</u>
Net assets, end of year	<u>\$ (7,026,464)</u>	<u>\$ (5,140,283)</u>

MERCY FAMILY CENTER
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (1,886,181)	\$ (1,448,469)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	21,481	25,493
Provision for bad debts	226,386	153,738
Changes in assets and liabilities:		
Increase in receivables	(285,032)	(123,340)
Decrease in prepaid expenses	1,346	8,270
(Decrease) increase in accounts payable, accrued expenses and unearned revenue	(508,907)	41,217
Decrease in long-term lease payable	(3,663)	(3,799)
Increase (decrease) in patient refunds payable	<u>76,117</u>	<u>(48,693)</u>
NET CASH USED IN OPERATING ACTIVITIES	(2,358,453)	(1,395,583)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in due to Mercy Health	<u>2,258,625</u>	<u>1,312,639</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>2,258,625</u>	<u>1,312,639</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(99,828)	(82,944)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>310,562</u>	<u>393,506</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 210,734</u>	<u>\$ 310,562</u>

MERCY FAMILY CENTER
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Organization's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Nature of Activities

Mercy Family Center is an affiliate of Mercy Health, a non-profit corporation. Mercy Family Center is a multi-disciplinary, comprehensive mental health program for children and their families, as well as adults. Its services consist of counseling, testing and assessments for all ranges of abilities, medication management, treatment of Attention Deficit Hyperactivity Disorder, parent training for adolescent behavior management, teacher training, and school consultations and observations. Mercy Family Center has three clinics located in Metairie, New Orleans, and Mandeville, Louisiana and learning centers located in Metairie and Mandeville, Louisiana.

Financial Statement Presentation

Mercy Family Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no temporarily or permanently restricted net assets at June 30, 2013 and 2012.

Revenue Recognition

For financial reporting purposes, Mercy Family Center recognizes all contributed support as income in the period received. Contributed support is reported as unrestricted or restricted depending on the existence of donor stipulations that limit the use of the support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

Grant revenue is recognized as it is earned in accordance with the terms of the approved contracts.

MERCY FAMILY CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the Years Ended June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition - Continued

Net patient service revenues are reported at estimated net realized amounts from patients, third-party payors, and others for services rendered. In addition, charity allowances of \$11,158 and \$57,840 have been netted with patient service revenues for the years ended June 30, 2013 and 2012, respectively

Net Patient Service Revenues and Patient Accounts Receivable

Patient service revenues (net of contractual allowances and discounts) are recorded during the period the health care services are provided and are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Estimates of contractual allowances under managed care health plans are based upon the services provided, historical payment rates and the payment terms specified in the related contractual agreements. Revenues related to uninsured patients have discounts applied in accordance with Mercy Family Center policy. Net patient service revenues are reported net of provision for bad debts.

Patient accounts that are uncollected, including those placed with collection agencies, are initially charged against the allowance for uncollectible accounts in accordance with collection policies of Mercy Family Center and, in certain cases, are reclassified to charity care if deemed to otherwise meet Mercy Family Center's charity care policy. The provision for bad debts is based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for bad debts based upon the payor composition and aging of receivables as of the reporting date with consideration of the historical payment and write-off experience by payor category. The results of these reviews are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for bad debt. After satisfaction of amounts due from insurance, Mercy Family Center follows established guidelines for placing past-due patient balances with collection agencies.

Property and Equipment

The cost of property and equipment is depreciated/amortized on a straight-line basis over the estimated useful lives of the assets (generally 3 to 10 years). Donated assets are recorded at the estimated value at the date of donation. Depreciation and amortization expense for the years ended June 30, 2013 and 2012 totaled \$21,481 and \$25,493, respectively.

It is the policy of Mercy Family Center to capitalize all property, furniture, and equipment with an acquisition cost in excess of \$1,000.

MERCY FAMILY CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the Years Ended June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising Costs

Advertising costs are expensed as incurred. The Organization recognized \$1,711 and \$7,305 of such costs during the years ended June 30, 2013 and 2012, respectively.

Cash Equivalents

For the purposes of the statement of cash flows, Mercy Family Center considers all investments with original maturities of three months or less to be cash equivalents.

Fair Values of Financial Instruments

Fair value estimates, methods and assumptions for the Organization's financial instruments of cash and cash equivalents, certificates of deposit, receivables, prepaid expenses, accounts payable and accrued expenses, unearned revenue, patient refunds payable and due to Mercy Health are that the carrying amounts reported in the statements of financial position are a reasonable estimate of fair value as of June 30, 2013 and 2012.

Pension Plans

Prior to July 1, 2011, Mercy Health sponsored an active defined benefit retirement plan for affiliates of Mercy Health. Effective July 1, 2011, the Plan was closed to new entrants, and pay credits ceased. Participants' cash balance accounts will continue to earn interest credits. For the year ended June 30, 2013, Mercy Health contributed \$2,500,000 as an interest payment to this Plan which covered all organizations under Mercy Health, including Mercy Family Center. The portion allocated to Mercy Family Center is approximately \$2,626 based on a percentage of active payroll. The Organization did not make any contributions to this plan for the year ended June 30, 2012.

Mercy Health also sponsors a 401(k) Plan for affiliates of Mercy Health. Effective July 1, 2011, the 401(k) Plan was amended to include an improved employer matching contribution and to add a non-matching service-based employer contribution. Contributions by the Organization to this Plan for the years ended June 30, 2013 and 2012 were \$83,994 and \$75,620, respectively.

MERCY FAMILY CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the Years Ended June 30, 2013 and 2012

NOTE 2 - CERTIFICATES OF DEPOSIT

The certificates of deposit totaling \$125,000 at June 30, 2013 and 2012, are pledged to the Louisiana Patient's Compensation Fund as a condition of the malpractice insurance coverage purchased by Mercy Family Center.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$ 521,351	\$ 521,351
Furniture and equipment	413,528	413,528
Less accumulated depreciation and amortization	<u>(915,649)</u>	<u>(894,168)</u>
	<u>\$ 19,230</u>	<u>\$ 40,711</u>

NOTE 4 - COMMITMENTS

Mercy Family Center leases its facilities in Metairie, New Orleans and Mandeville, Louisiana under noncancellable agreements accounted for as operating leases. The Metairie office lease expires January 2014. The Mandeville office lease expires in December 2013. The New Orleans office lease expired October 2013 and was renewed through October 2016. The Mandeville Learning Center lease expires May 2014.

Future minimum lease payments are as follows for the year ending June 30:

2014	\$ <u>144,956</u>
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The rental expense for the years ended June 30, 2013 and 2012 totaled \$272,072 and \$264,104, respectively.

NOTE 5 - INCOME TAXES

Mercy Family Center is a non-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization's tax returns for 2010, 2011, 2012 and 2013 remain subject to examination from taxing authorities. The 2013 tax return has not been filed as the Organization applied for an extension of time to file the 2013 tax return.

The Organization recognizes the tax benefit from uncertain tax positions only if it is "more likely than not" the tax position will be sustained on examination by the taxing authorities. To the extent the Organization's assessment of such tax positions change, the change will be recorded in the period in which the determination is made. No adjustments were required for the years ended June 30, 2013 and 2012.

MERCY FAMILY CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the Years Ended June 30, 2013 and 2012

NOTE 6 - OFF-BALANCE SHEET RISK

The uninsured cash balances consist of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash balances per bank statements	\$ 325,017	\$ 435,562
Less FDIC insurance	<u>(325,017)</u>	<u>(435,562)</u>
Uninsured cash balances	<u>\$ -</u>	<u>\$ -</u>

NOTE 7 - CONCENTRATIONS OF CREDIT RISK

Mercy Family Center grants credit without collateral to its patients, most of whom are local residents and are insured under Medicaid or third-party payor agreements. Mercy Family Center recognizes that revenues and receivables from government agencies are significant to the Organization's operations, but does not believe that there are any significant credit risks associated with these government agencies. The mix of receivables (before the provision of bad debt) from patients and third-party payors at June 30, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Medicaid	3%	19%
Blue Cross/Blue Shield	11%	9%
Magellan of Louisiana	38%	34%
Other third-party payors	32%	27%
Patients	<u>16%</u>	<u>11%</u>
	<u>100%</u>	<u>100%</u>

The State of Louisiana launched the Louisiana Behavioral Health Partnership in March 2012 and selected Magellan of Louisiana (Magellan) to coordinate care, contract with providers and handle billing and reimbursement. As a result, Medicaid claims are processed through Magellan for the year ended June 30, 2013 and for a portion of the year ended June 30, 2012.

NOTE 8 - RECEIVABLES/REVENUES

The following is a summary of Mercy Family Center's patient service revenues, net of contractual allowances and discounts (before the provision for bad debt) by major payor.

	<u>2013</u>	<u>%</u>	<u>June 30</u>	<u>2012</u>	<u>%</u>
Medicaid	\$ 36,675	4%	\$ 561,758	47%	
Managed care/other	938,189	95%	581,421	48%	
Self-pay	<u>13,995</u>	<u>1%</u>	<u>64,637</u>	<u>5%</u>	
Total	<u>\$ 988,859</u>	<u>100%</u>	<u>\$ 1,207,816</u>	<u>100%</u>	

MERCY FAMILY CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the Years Ended June 30, 2013 and 2012

NOTE 8 – RECEIVABLES/REVENUES - Continued

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Noncompliance with Medicare and Medicaid laws and regulations can make Mercy Family Center subject to significant regulatory action, including substantial fines and penalties, as well as exclusion from the Medicare and Medicaid programs.

Mercy Family Center grants credit to patients in return for health care services rendered to said patients, substantially all of whom are residents of the community served. Mercy Family Center does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, HMOs, and commercial insurance policies). At June 30, 2013 and 2012, approximately 35% and 41%, respectively, of net accounts receivable were collectible from governmental payors (including Medicare and Medicaid), with approximately 50% and 54%, respectively, of net accounts receivable collectible from commercial insurance and managed care payors.

The allowance for bad debt was \$309,198 and \$318,130 as of June 30, 2013 and 2012, respectively. These balances as a percent of accounts receivable were approximately 59% and 66% as of June 30, 2013 and 2012, respectively. Mercy Family Center has experienced an increase in write-off trends related to bad debt and charity across the ministry driven by higher unemployment, loss of employer-sponsored insurance plans, and rising patient responsibility balances. Mercy Family Center reviews and updates its uninsured discount rate on an annual basis. There have been no significant changes to the charity care policies for the year ended June 30, 2013.

The following is a summary of Mercy Family Center's allowance for bad debt activity:

	June 30	
	2013	2012
Balance at beginning of period	\$ 318,130	\$ 219,443
Provision for bad debt	226,386	153,738
Accounts written off, net of recoveries and other	(235,318)	(55,051)
Balance at end of period	<u>\$ 309,198</u>	<u>\$ 318,130</u>

MERCY FAMILY CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the Years Ended June 30, 2013 and 2012

NOTE 8 – RECEIVABLES/REVENUES - Continued

Mercy Family Center patient receivables and Mercy Family Center student receivables consisted of the following at June 30, 2013:

	<u>Mercy Family Center</u>	<u>Mercy Learning Center</u>
Receivables	\$ 515,686	\$ 7,441
Less allowance for doubtful accounts	<u>(307,325)</u>	<u>(1,873)</u>
	<u>\$ 208,361</u>	<u>\$ 5,568</u>

Mercy Family Center patient receivables and Mercy Family Center student receivables consisted of the following at June 30, 2012:

	<u>Mercy Family Center</u>	<u>Mercy Learning Center</u>
Receivables	\$ 469,340	\$ 10,865
Less allowance for doubtful accounts	<u>(316,239)</u>	<u>(1,891)</u>
	<u>\$ 153,101</u>	<u>\$ 8,974</u>

Mercy Family Center receivables are net of contractual allowances, denial of claims, and ineligible charges.

NOTE 9 - MERCY HEALTH

At June 30, 2013 and 2012, Mercy Family Center had a payable of \$7,248,107 and \$4,989,482, respectively, due to Mercy Health for payment of salaries and fringe benefits and other expenses on behalf of Mercy Family Center. Mercy Health does not require collateral or charge interest. This payable is not expected to be paid in the next year.

During the years ended June 30, 2013 and 2012, \$2,343,265 and \$2,417,271, respectively, was paid by Mercy Health on behalf of Mercy Family Center for salaries and fringe benefits.

MERCY FAMILY CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the Years Ended June 30, 2013 and 2012

NOTE 10 - FEDERAL FINANCIAL ASSISTANCE

Mercy Family Center has been awarded grants to provide behavioral health services to children, adolescents and families, and adults. The grants are considered to be exchange transactions. Accordingly, revenues are recognized when earned and expenses are recognized as incurred. Grant activity for the years ended June 30, 2013 and 2012 was as follows:

	2013	2012
Unearned revenue, beginning of year	\$ 13,873	\$ 224,837
Grant payments returned	(13,873)	(210,005)
Grant receipts	296,362	339,040
Grant expenditures	(315,921)	(362,076)
Grant receivable	<u>19,559</u>	<u>22,077</u>
Unearned revenue, end of year	<u>\$ -</u>	<u>\$ 13,873</u>

NOTE 11 - FUNCTIONAL EXPENSES

Expenses incurred for the years ended June 30, 2013 and 2012 were for the following purposes:

	2013	2012
Management and general	\$ 378,250	\$ 352,143
Program services	2,854,984	2,993,250
Marketing	1,711	7,305
Fundraising	<u>26,462</u>	<u>54,852</u>
	<u>\$ 3,261,407</u>	<u>\$ 3,407,550</u>

NOTE 12 – UNCERTAINTIES, CONTINGENCIES AND RISKS

On October 17, 2012, the Organization received a notification from Catholic Charities Archdiocese of New Orleans (CCANO) that they were disallowing \$30,883 of reported expenses related to their post BP Oil Spill behavioral health grant. During the grant period of January 1, 2011 through July 31, 2012, the Organization reported \$229,304 in expenses and CCANO approved \$198,421 of this total. CCANO requested a repayment of the difference between the \$360,000 advanced by CCANO less the approved expenses; however, the Organization contested these disallowances on the basis that the expenses were included in the approved final budget for the grant.

MERCY FAMILY CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
For the Years Ended June 30, 2013 and 2012

NOTE 12 – UNCERTAINTIES, CONTINGENCIES AND RISKS - Continued

On February 7, 2013, the Organization received a response from CCANO that they were unable to accept the Organization's request to submit an amended final Actual versus Budget Report. However, CCANO increased the approved amount to \$213,700 and requested repayment of the total amount advanced less the amount approved. The Organization repaid the amount due to CCANO of \$146,300 on March 25, 2013.

NOTE 13 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through the date the financial statements were available to be issued, which corresponds with the date of the independent auditors' report. No material subsequent events have occurred since June 30, 2013 that requires recognition or disclosure in these financial statements.

SUPPLEMENTAL INFORMATION

MERCY FAMILY CENTER
SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended June 30, 2013 and 2012

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	TOTAL FEDERAL EXPENDITURES	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		2013	2012
		_____	_____
Funds passed through Substance Abuse and Mental Health Services Administration			
Project Fleur de lis	93.243	\$ 315,921	\$ 337,612
Funds passed through Louisiana Public Health Institute			
Primary Care Access and Stabilization Grant	93.779	-	24,464
Total U.S. Department of Health and Human Services		\$ 315,921	\$ 362,076

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

Presentation of Financial Statements

The accompanying Schedules of Expenditures of Federal Awards have been prepared on the accrual basis of accounting. Grant revenues are recorded, for financial reporting purposes, when Mercy Family Center has met the cost of reimbursement or funding qualifications for the respective grants.

Kushner LaGraize, L.L.C.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Mercy Family Center

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Mercy Family Center (the Organization) which comprises the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mercy Family Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mercy Family Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kushner LaGraize, L.L.C.

Metairie, Louisiana
November 22, 2013

MERCY FAMILY CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

SECTION I - SUMMARY OF THE AUDITORS' REPORTS

The auditors' report expresses an unqualified opinion on the financial statements of Mercy Family Center.

No significant deficiencies were reported during the audit of the financial statements in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

No instances of noncompliance that were material to the financial statements are reported in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

A Management Letter was not issued for the year ended June 30, 2013.

SECTION II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None Noted.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Noted.

MERCY FAMILY CENTER
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Substance Abuse and Mental Health Services Administration (SAMHSA) Project Fleur de lis

Significant Deficiency/Questioned Costs - 2012-1

RECOMMENDATION

We recommend that Mercy Family Center follow the grant stipulations and only expend grant funds on costs allowable under the grant. In addition, the funds should be reimbursed back to the grantor. Internal controls should be in place to ensure that all federal grant expenditures are properly reflected in the SEFA and grant schedules.

RESPONSE

We are in agreement.

CURRENT STATUS

Resolved.